

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAII-AMERICAN WATER COMPANY, INC.)
For Approval of Rate Increases and)
Revised Rate Schedules and Rules)
_____)

DOCKET NO. 03-0025

DECISION AND ORDER NO. 20966

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

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Filed May 6, 2004
At 1:00 o'clock P.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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OF THE STATE OF HAWAII

In the Matter of the Application of)	
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HAWAII-AMERICAN WATER COMPANY, INC.)	Docket No. 03-0025
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For Approval of Rate Increases and)	Decision and Order No. 20966
Revised Rate Schedules and Rules.)	
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DECISION AND ORDER

I.

Introduction

The parties in this docket are HAWAII-AMERICAN WATER COMPANY, INC. ("Applicant" or "HAWC"), and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate").¹ Applicant (fka, East Honolulu Community Services, Inc.) is a public utility authorized to provide wastewater collection, treatment and disposal services to the residences, condominiums, and commercial establishments in the Hawaii Kai community on the island of Oahu.

II.

Procedural Background

On February 5, 2003, Applicant filed with the commission its notice of intent to file an application for a rate

¹HAWC and the Consumer Advocate, hereinafter, collectively referred to as "Parties".

increase, pursuant to Hawaii Administrative Rules ("HAR") § 6-61-85(a).

On April 30, 2003, Applicant filed a motion with the commission, pursuant to HAR §§ 6-61-41 and 6-61-92, requesting commission approval to allow Applicant to utilize calendar year 2004 financial data in its application for a rate increase in lieu of mid-year 2003-2004 test year data as required by HAR § 6-61-87(4)(A).²

On May 1, 2003, the Consumer Advocate filed a Statement of No Opposition to Applicant's motion filed on April 30, 2003.

The commission issued Order No. 20165 approving Applicant's request to utilize calendar year 2004 financial data ("Test Year") in its application for a rate increase.

On May 6, 2003, Applicant filed an application in the subject docket requesting commission approval of rate increases and revised rate schedules, pursuant to Hawaii Revised Statutes ("HRS") § 269-16. Applicant served the Consumer Advocate and the Mayor of the City and County of Honolulu copies of the application in accordance with HAR § 6-61-91(a).

On May 13, 2003, the Consumer Advocate informed the commission that it had completed its initial review of the May 6, 2003 application, and based upon that review, additional information was required from Applicant in order to strictly

²Applicant has annual gross revenues greater than \$2,000,000. As such, Applicant is subject to the requirements of HAR §§ 6-61-87 and 6-61-91(a).

comply with the requirements of HAR Title 6, Chapter 61, Subchapters 6 and 8 and deem the application complete.

By letter, dated May 14, 2003 and filed on May 19, 2003, Applicant stated that its 2002 audited financial statements would be available no later than May 31, 2003, and that it was revising the application to address the other issues raised in the Consumer Advocate's May 13, 2003 filing.

On May 20, 2003, Applicant filed a first amended application (hereinafter, referred to as the "First Amended Application"), which amended and restated the May 6, 2003 application in its entirety in response to the Consumer Advocate's May 13, 2003 filing and to reflect increased insurance costs. Applicant served copies of the First Amended Application on the Consumer Advocate and the Mayor of the City and County of Honolulu on May 20, 2003, pursuant to HAR § 6-1-91(a).

On May 23, 2003, the Consumer Advocate informed the commission that it had completed its review of the First Amended Application, and based upon that review as well as the representations made by Applicant contained in the May 14, 2003 letter, Applicant had complied with the requirements of HAR Chapter 61, Subchapters 6 and 8. Based upon that review, the Consumer Advocate determined that Applicant strictly complied with the above requirements and did not object to the completeness of the Application, subject to Applicant providing a copy of its 2002 audited financial statements by May 31, 2003.

On May 30, 2003, Applicant filed its audited financial statements for 2001 and 2002 as Exhibit 1, Schedule 8, Part 2 of the First Amended Application.

On June 13, 2003, Applicant filed a copy of the notice it provided to its customers regarding the public hearing to be held on July 3, 2003, pursuant to HRS §§ 269-16 and 269-12.

On June 27, 2003, the commission approved a Proposed Stipulation for Protective Order entered into between the Parties on June 20, 2003, and thereafter issued Protective Order No. 20267 setting forth the procedures for dealing with privileged and confidential information that may be requested or filed in the subject docket.

On July 3, 2003, a public hearing was held on the proposed rate increase, pursuant to HRS §§ 269-16 and 269-12, at the Kaiser High School Cafeteria, wherein the commission heard oral testimony regarding the proposed rate increase and revisions to rate schedules and rules.

By letter dated July 14, 2003, the Consumer Advocate filed the executed copies of the protective agreements required under Protective Order No. 20267.

On July 29, 2003, the Parties filed a proposed Stipulated Prehearing Order setting forth the proposed issues, procedures and schedule to govern the proceedings in the subject docket. By Order No. 20374, filed on August 12, 2003, the commission approved, with the exception of the date for the

evidentiary hearing,³ the Proposed Stipulated Prehearing Order filed by the Parties.

Pursuant to the procedural schedule approved by Order No. 20374, the Consumer Advocate submitted formal discovery to obtain information supportive of its independent investigation of the First Amended Application, and Applicant provided responses to these discovery requests. In particular, on July 23, 2003, July 25, 2003, July 29, 2003 and July 31, 2003, the Consumer Advocate informally submitted four (4) submissions of information requests on Applicant.⁴ Applicant filed its responses to these submissions through various filings on August 6, 2003, August 11, 2003, August 12, 2003, August 13, 2003, August 14, 2003, August 19, 2003, August 21, 2003 and August 26, 2003, with supplemental responses filed on August 18, 2003, August 27, 2003 and September 4, 2003.

By letter dated September 4, 2003, Applicant informally provided the Consumer Advocate with certain additional information.

Pursuant to the amended procedural schedule, on September 2, 2003 and September 4, 2003, the Consumer Advocate filed its fifth and sixth submissions of information requests on

³The Proposed Stipulated Prehearing Order filed by the Parties on July 29, 2003 provided that the evidentiary hearing would occur on February 26, 2004 and February 27, 2004, if necessary. Pursuant to Order No. 20374, the Commission modified this provision by allowing the Commission to set the date of the evidentiary hearing in the event no settlement was reached by the Parties.

⁴The information requests were formally filed with the commission on August 14, 2003.

Applicant, respectively. Applicant filed its responses to these requests on September 16, 2003 and September 17, 2003, respectively.

On October 3, 2003, based on the information provided in the First Amended Application and during the discovery process described above, the Consumer Advocate filed its Direct Testimonies, Exhibits and Workpapers ("Direct Testimonies"), setting forth its position on various matters such as the amount of rate relief to which Applicant should be entitled.

On January 13, 2004, the parties submitted their Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Evidentiary Hearing and Briefs ("Stipulation").

On April 14, 2004, the commission issued Interim Decision and Order No. 20901⁵, which among other things allowed HAWC to increase its rates on an interim basis to such levels as will produce, in the aggregate, \$245,813 in additional revenues for the 2004 Test Year.⁶ On April 22, 2004, the commission issued Order No. 20920, which approved HAWC's tariff changes reflecting the changes authorized by Interim Decision and Order No. 20901.

⁵Pursuant to HRS § 269-16(d), the commission may grant an interim increase, subject to refund and interest, pending a final decision, if the commission believes that the public utility is probably entitled to an increase in rates.

⁶The interim rate increase was effective immediately until the commission issues a final decision and order in this docket.

III.

Stipulated Issues

As set forth in Order No. 20374, the stipulated issues in this docket are as follows:

1. Is Applicant's proposed rate increase reasonable?
 - a. Are the proposed tariffs, rates, and charges just and reasonable?
 - b. Are the revenue forecasts for the Test Year ending December 31, 2004 at present rates and proposed rates reasonable?
 - c. Are the projected operating expenses for Test Year reasonable?
 - d. Is the projected rate base for Test Year reasonable, and are the properties included in the rate base used for public utility purposes?
 - e. Is the rate of return requested fair?

IV.

Stipulation in Lieu of Rebuttal Testimonies and Evidentiary Hearing

On January 13, 2004, the Parties submitted their Stipulation. The Stipulation results in a \$245,813 increase in Test Year revenues and a revenue requirement for Applicant of \$7,340,835 (consisting of \$5,965,762 in total operating expenses and revenue deductions and \$1,375,073 in operating income after income taxes based on an 8.85 per cent stipulated rate of return on Applicant's stipulated rate base amount of \$15,537,556).

In considering the Stipulation, the commission has the independent obligation to determine if its provisions are reasonable and in the public interest. While we strive to respect the basic underlying agreements and conditions made by the parties as expressed in the Stipulation, we must undertake an independent review to, among other things, ensure that the interests of the public (Applicant's ratepayers who are affected by the rate increase, in particular) are protected.

Upon review of the entire record in this case, we find that the proposed agreements and conditions set forth in the Stipulation to be reasonable and in the public interest. We also find that our approval of the Stipulation in its entirety will assist in expediting and facilitating the ratemaking process. Accordingly, we conclude that the proposed agreements and conditions set forth in the Parties' Stipulation should be approved in their entirety and made a part of this decision and order.

The Parties should be advised, however, that commission review and approval of the Stipulation is based primarily on the Parties' representation that there are no remaining differences in this proceeding and that the Parties desire to resolve and dispose of the entire case by means of the Stipulation. As a result, our approval of the Stipulation in its entirety shall not be used or cited by any party or person as precedent in any other proceeding before the commission or before any court of law for any purpose, except in furtherance of the purposes and results of the Stipulation. As discussed below, we will from

time to time state in this decision and order that the stipulated estimates are either reasonable or acceptable. Such statements shall not be read or construed as necessarily approving the methodology by which the stipulated estimates were derived, and the commission will, therefore, not be bound by the stipulated estimates in future rate cases.

V.

Stipulated Revenues

In its First Amended Application, Applicant originally sought a Test Year revenue requirement amount of \$7,862,552. The Consumer Advocate, in its Direct Testimonies, proposed a Test Year revenue requirement amount of \$6,859,622. The Parties settled on a Test Year revenue requirement amount of \$7,340,835 (consisting of \$5,965,762 in total operating expenses/revenue deductions and \$1,375,073 in operating income after income taxes based on an 8.85 per cent stipulated rate of return on Applicant's stipulated rate base amount of \$15,537,556). This amounts to a revenue increase of \$245,813, or approximately 3.47 per cent.

We find the stipulated revenues of \$7,340,835 to be reasonable for the Test Year.

VI.

Operating Stipulated Expenses

The Parties stipulated to total expenses of \$5,965,762 for the Test Year consisting of (1) stipulated operating and maintenance ("O&M") expenses of \$3,611,443, (2) taxes, other than income of \$604,035, (3) depreciation of \$1,286,376, (4) amortization of \$58,281, and (5) income taxes of \$405,627. Based on the discussion below, we find the total stipulated operating expenses of \$5,965,762 reasonable for the Test Year.

A.

Stipulated Operating O&M Expenses

The Parties agreed to an amount of \$3,610,558 and \$3,611,443 for Applicant's Test Year total O&M expenses at present and proposed rates, respectively. The Parties stipulate to the following Test Year O&M expenses:

Labor:	\$1,081,573
Purchase Water	3,668
Power & Fuel	296,157
Chemicals	183,716
Waste Disposal	186,925
Management Fee	447,108
Group Insurance	299,723
Pension	128,948
Regulatory Expense	36,583
Insurance	
Other than Group	246,134
Customer Accounting	144,296
Rents	57,021
General Office Exp.	68,401
Miscellaneous	282,565
Repairs & Maintenance	<u>148,625</u>
Total O&M Expense	\$3,611,443

Upon careful review, the commission finds these stipulated amounts for O&M expenses reasonable.

B.

Taxes, Other than Income

The Parties were in agreement as to the methodology and tax rates to be used to calculate the revenue taxes included in "General Taxes - Other than Income." Taxes other than income consist of the: (1) State public service company tax, 6.364 per cent; (2) State public utility fee, 0.5 per cent, and (3) payroll taxes. The Parties stipulated to \$587,162 and \$604,035 at present and proposed rates, respectively, for the Test Year. We find the present and proposed rates of \$587,162 and \$604,035, respectively, for General Taxes- Other than Income, reasonable.

C.

Depreciation Expense

Applicant initially forecasted a Test Year depreciation expense of \$1,054,473, which was later revised to \$1,138,372. In its Direct Testimonies, the Consumer Advocate recommended a Test Year depreciation expense of \$1,103,063. The differences between the Parties are attributable to the differences in the plant items, that have since been resolved, and the different methodologies used to calculate depreciation expense. The Parties stipulated to utilizing the one-half year convention to calculate the depreciation on a group asset basis. As a result, the Parties agreed on a Test Year depreciation expense of \$1,286,376. We find the Test Year depreciation expense of \$1,286,376 reasonable.

D.

Amortization

The Parties Stipulated to a Test Year amortization expense of \$58,281. This amount consists of the (1) Amortization of Long Term Plant, \$57,108; and (2) Amortization of Capital Leases, \$1,173. We find the stipulated Test Year amortization expense of \$58,281 to be reasonable.

E.

Income Taxes

The Parties were in agreement as to the methodology and tax rates to be used to calculate income taxes. The effective tax rate used was 38.9098 per cent. The differences between the Parties resulted from their differing revenue requirement recommendations and Applicant's failure to claim the Capital Goods Excise Tax Credit ("CGETC")⁷ that was available to it on its Hawaii income tax returns. The Parties stipulated to reduce the income tax expense by the current year amortization of the CGETC, resulting in an Income Tax amount of \$316,891 and \$405,627 at present and proposed rates, respectively for the Test Year. We find the income tax amount of \$316,891 and \$405,627 at the present and proposed rates, respectively for the Test Year to be reasonable.

⁷The CGETC was enacted in 1987 as the Hawaii counterpart to the federal investment tax credit and allows a business to reduce its income tax liability by a certain percentage of the amount spent on qualified capital investments. Generally this credit is in the amount of four (4) per cent of the purchase price or construction cost of qualifying plant and equipment used in a trade or business.

V.

Rate Base

The Parties stipulated to a Test Year average rate base of \$15,537,556. HAWC's rate base consists of its net plant-in-service, less deductions for net contributions in aid of construction, accumulated deferred taxes and unamortized Hawaii General Excise Tax Credit.

Upon review, the commission finds reasonable the stipulated Test Year average rate base of \$15,537,556.

VI.

Rate of Return

In its First Amended Application, Applicant proposed a return on rate base of 8.97 per cent. In its Direct Testimonies, the Consumer Advocate proposed a return on rate base of 8.85 per cent. Applicant has agreed to use the Consumer Advocate's proposed 8.85 per cent return on rate base for this proceeding. The commission finds that the Stipulated 8.85 per cent return on rate base to be fair and reasonable.

VII.

Rate Design

The Parties stipulated rate design is as follows: (1) single family residential unit rates would increase from \$48.46 to \$50.14, an increase of 3.47 per cent; (2) multi-family residential unit rates (monthly service charge per dwelling unit) would increase from \$38.77 to \$40.12, an increase of

3.47 per cent; (3) commercial (non-residential) restaurants or food service operations rates (monthly service charge per establishment) would increase from \$12.44 to \$12.87 per 1,000 gallons of water consumed, an increase of 3.47 per cent; and (4) commercial (non-residential) non-restaurants or non-food service operations rates (monthly service charge per establishment) would increase from \$6.22 to \$6.44 per 1,000 gallons of water consumed, an increase of 3.47% per cent. The commission finds that the Parties' stipulated rate design is just and reasonable.

VIII.

Rules and Regulations

A.

Applicant's Proposed Rule Changes

1.

Deletion of Contributions in Aid of Construction ("CIAC") Provisions

In the Application, Applicant sought to remove the CIAC provisions in its Rules and Regulations (Rule XV) because Applicant's authorized service territory is near the point of being fully built-out. In its Direct Testimonies, the Consumer Advocate stated that it believed the deletion of the CIAC provisions was premature at the current time because developable land still existed within Applicant's authorized service territory. Applicant has agreed with the Consumer Advocate and is no longer seeking to remove Rule XV from its Rules and Regulations. We find that the continued inclusion

of the CIAC provisions in HAWC's Rules and Regulations to be reasonable.

2.

Charge for Bad Checks/Dishonored Electronic Fund Transfers

In the First Amended Application, Applicant also sought to impose a charge of \$10 for any customer that issued a bad check to Applicant or whose electronic fund transfer was not honored. The purpose of this charge was to recover the fees charged to Applicant by the financial institution(s) when Applicant attempted to deposit such bad checks or when such electronic fund transfers are not honored. In its Direct Testimonies, the Consumer Advocate agreed with Applicant's request to charge a fee for bad checks and dishonored electronic fund transfers, but recommended that the charge be increased to \$15 to better allow Applicant to cover its approximate labor costs and bank fees associated with these items and as such mitigate the need for other customers to be burdened with subsidizing these costs. This increase has been agreed to by Applicant.

We find that a \$15 charge for a customer that issued a bad check to Applicant or whose electronic fund transfer was not honored is reasonable.

New Definitions

In its response to CA-IR-94, Applicant noted that its existing Rules and Regulations do not define its different classes of customers, such as what a restaurant is for purposes of charging a customer the restaurant rate. In that connection, Applicant proposed to amend its existing Rules and Regulations to define these classes of customers, and also indicated the possibility of replacing the term "restaurant" as used in its Rules and Regulations with the term "food service operations." In its Direct Testimonies, the Consumer Advocate stated that it did not have any objections to this proposal.

In connection with the above, the Parties have agreed to the following changes to Applicant's Rules and Regulations:

(a) The use of the term "restaurant" and "restaurants" shall be replaced throughout the Rules and Regulations with the term "food service operation" and "food service operations," respectively.

(b) The following definition shall be added to the Rules and Regulations for the term "Residential Unit":
"A single-family or multi-family dwelling unit where a customer/tenant/person resides that is comprised of a living area with bathroom and kitchen facilities such as a refrigerator and range. If a structure contains a separate bathroom and kitchen facilities, that structure will be considered as having a separate Residential Unit for billing purposes for each such separate bathroom and kitchen facilities."

(c) The following definition shall be added to the Rules and Regulations for the term "Commercial Unit":
"A unit that is not a Residential Unit."

(d) The following definition shall be added to the Rules and Regulations for the term "Food Service Operation":
"A commercial unit (i.e., non-Residential Unit) or operation that prepares and serves food, whether on a profit or non-profit basis."

(e) The following definition shall be added to the Rules and Regulations for the term "Non-Food Service Operation":
"A commercial unit (i.e., non-Residential Unit) or operation that is not a Food Service Operation. For a Commercial Unit that has portions of its facilities/operations that are classified as a Food Service Operation and other portions that are classified as a Non-Food Service Operation, that Commercial Unit shall be billed for both operations at the appropriate tariffed rate."

We find the above mentioned stipulated changes to Applicant's Rules and Regulations are reasonable.

4.

Name Change

Applicant's current Rules and Regulations are under the name East Honolulu Community Services, Inc., Applicant's former name. Applicant changed its legal name to Hawaii-American Water Company, Inc., effective as of June 22, 1998, but failed to revise its Rules and Regulations to reflect this name change. Applicant stated in the First Amended Application that it will

refile its Rules and Regulations to reflect its current legal name together with any other revisions that may be approved in the subject docket. In connection with this, the Parties have agreed to revise Applicant's Rules and Regulations as part of this Stipulation to reflect Applicant's current legal name.

We find that revising Applicant's Rules and Regulations to reflect Applicant's current legal name to be reasonable.

B.

Consumer Advocate's Proposed Rule Changes

In its Direct Testimonies, the Consumer Advocate suggested several additional revisions to Applicant's Rules and Regulations, all of which were approved by Applicant as reflected in its settlement package, Exhibit A (Reference No. 90). A summary of the revisions to Applicant's Rules and Regulations agreed upon by the Parties is set forth below:

(1) The term "Consumer" as used throughout the Rules and Regulations will be replaced with the term "Customer."

(2) Rule V(1) (Service Connection) shall be amended to read as follows:

1. SERVICE CONNECTION. When the application for a service connection has been approved, such connection shall be installed by the Customer at its expense. Thereafter, the connection shall be and remain the sole property of the Company. The Customer shall be responsible for the maintenance and repair of the lines located within the Customer's property, while the Company shall be responsible for the maintenance and repair of the lines located outside the Customer's property. Notwithstanding the above, the Customer shall be liable for damage to

equipment, lines or other Company property, wherever located, if the damage is caused by the Customer. If the damage is caused by tree roots, the Company shall be responsible for initial tree root damage or blockage to sewer lines within the public right-of-way or within a utility easement along the Company's sewer main. If damage is caused by a tree on the Customer's property, or which is the responsibility of the Customer to maintain, the Customer shall be responsible for the Company's costs to repair subsequent damage to the sewer lines. The size, alignment, materials and method of construction, including, without limitation, jointing and testing of the service connection shall conform to the building and plumbing code or other applicable rules and regulations of the City and County of Honolulu and the Company. In the event of any conflict between the building and plumbing code or other applicable rules and regulations of the City and County of Honolulu and the rules and regulations of the Company, the stricter shall apply, unless otherwise agreed to by the Company.

- (3) Rule VI(1) (Bills) shall be amended to read as follows:

1. BILLS. Residential Customers will be billed the monthly charge for sewer service in equal installments every month in advance. All bills shall be due and payable within thirty (30) days after deposit in the United States mail or presentation to the Customer. Commercial and other Customers will be billed monthly based upon water consumption. Payment shall be made, in person or by United States mail, at the office of the Company or, at the Company's option, to duly authorized collectors of the Company. If any bill is not paid within thirty (30) days after deposit in the United States mail or presentation to the Customer, the sewer service shall be subject to discontinuance without further notice.

(4) Rule VIII(2) (Interruption of Service) shall be amended to read as follows:

2. The Company reserves the right at any and all times to shut off service without notice for the purpose of making repairs, extensions, alterations, or for other reasons related to the operation of the sewage system. Repairs or improvements will be prosecuted as rapidly as practicable and, insofar as practicable, at such times as will cause the least inconvenience to the Customer. Except in the case of emergency repairs, the Company shall use best efforts to give the Customer at least 24 hours notice before shutting off service.

(5) The Rules and Regulations will be revised for reformatting purposes to (a) add Applicant's name, location, tariff, and page version number to the page headers on each page, (b) add the identity of the issuer of the Rules and Regulations (i.e., contact person) and the effective date to the pager footers on each page, and (c) add a Tariff Check List Sheet.

Upon review, we find reasonable the Consumer Advocate's proposed rule changes.

C.

Commercial Billing Reconciliation

In its Direct Testimonies, the Consumer Advocate expressed various concerns with Applicant's prior commercial billing practices and the lack of established procedures to input, determine and validate commercial water meter readings and resulting wastewater billing amounts. The Consumer Advocate also

experienced extensive difficulty in obtaining detailed commercial customer billing information in support of the above.

As a result of these concerns, the Parties have agreed to the following:

(1) With regard to Rule VI (Payment of Bills) of Applicant's Rules and Regulations, bills to commercial customers should be sent monthly by Applicant and contain a clear listing of all charges. In addition, Applicant should comply with reasonable customer requests for an itemized statement of charges. For Applicant's commercial customers, the Consumer Advocate concluded that it is reasonable for Applicant to furnish, on each bill at a minimum, the following details: (a) meter number/identification of account; (b) current and previous monthly reading for each meter; (c) multiple factor to determine meter size and amount of water for each meter; (d) computed water use, both gross and net of landscape credit, for each meter; and (e) rates used per water usage.

(2) If there is a dispute concerning the amount of the bill, service should not be discontinued based on the total bill amount.

(3) If the dispute is not resolved, notice should be provided that the customer is entitled to contact the Commission for a review of the matter.

Upon review, we find the parties agreed-upon rule changes regarding Applicant's commercial billing reconciliation are reasonable.

IX.

Ultimate Findings and Conclusions

Upon careful review, we find that the Parties' Stipulation is just and reasonable. Accordingly, we will approve the Parties' Stipulation in its entirety.

However, because the Parties' Stipulation and other agreements result from arms-length negotiations, involving compromises from both Parties our approval of the Stipulation, or of the methodologies used by the Parties may not be cited as precedent in any future proceeding.

The commission finds and concludes:

1. The operating revenues and operating expenses of the 2004 Test Year, as set forth in Exhibit A, are reasonable.
2. The stipulated revenues of \$7,340,835 are reasonable for the Test Year.
3. The stipulated operating expenses for the Test Year of \$5,965,762 are reasonable.
4. The use of an average test year rate base is reasonable.
5. The stipulated Test Year average depreciated rate base of \$15,537,556 is reasonable.
6. The stipulated rate of return for the Test Year of 8.85 per cent is fair and reasonable.
7. The stipulated tariffs, rates, and charges are just and reasonable.

8. The commission's issuance of the instant final decision and order renders moot the issuance of an interim decision and order.

X.

Orders

THE COMMISSION ORDERS:

1. HAWC's request to change its wastewater rates is approved, consistent with the terms of this decision and order.

2. Based on a total revenue requirement of \$7,340,835, HAWC's restructured rates will give HAWC an opportunity to earn a rate of return of 8.85 per cent, on the average depreciated rate base for the 2004 Test Year, as shown on Exhibit A attached hereto.


3. The effective date of Applicant's tariff changes and restructured rates is the filed date of this decision and order.

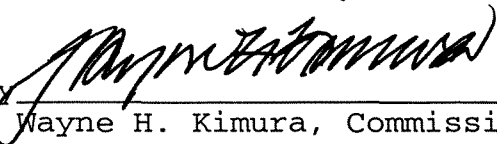
4. Applicant shall file with the commission revised tariff sheets and rate schedules, that reflect the changes approved by this decision and order. Applicant's revised tariff sheets and rate schedules shall be filed with the commission and served on the Consumer Advocate for the commission's review and approval.

5. The issuance of the instant decision and order renders moot the issuance of an interim decision and order.

DONE at Honolulu, Hawaii this 6th day of May, 2004.


PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Kevin M. Katsura
Commission Counsel

03-0025.eh

DOCKET NO. 03-0025
REVENUE REQUIREMENTS
TEST YEAR ENDED DECEMBER 31, 2004

	Present Rates	Additional Amount	Approved Rates
REVENUES			
Residential Revenues	\$ 5,665,486	\$ 196,524	\$ 5,862,010
Commercial Revenue	730,849	25,352	\$ 756,201
Public Authorities Revenues	690,074	23,937	\$ 714,011
Miscellaneous Revenues	8,613	-	\$ 8,613
Total Operating Revenues	<u>\$ 7,095,022</u>	<u>\$ 245,813</u>	<u>\$ 7,340,835</u>
O & M EXPENSES			
Labor	\$ 1,081,573.00		\$ 1,081,573.00
Purchase Water	3,668		3,668
Power & Fuel	296,157		296,157
Chemicals	183,716		183,716
Waste Disposal	186,925		186,925
Management Fees	447,108		447,108
Group Insurance	299,723		299,723
Pension	128,948		128,948
Regulatory Expense	36,583		36,583
Insurance Other Than Group	246,134		246,134
Customer Accounting	143,411	885	144,296
Rents	57,021		57,021
General Office Expense	68,401		68,401
Miscellaneous	282,565		282,565
Repairs & Maintenance	148,625		148,625
Total O & M Expenses	<u>\$ 3,610,558.00</u>	<u>885</u>	<u>\$ 3,611,443.00</u>
Taxes, Other Than Income	\$ 587,162.00	\$ 16,873.00	\$ 604,035.00
Depreciation	1,286,376		1,286,376
Amortization	58,281		58,281
Income Taxes	<u>316,891</u>	<u>88,736</u>	<u>405,627</u>
Total Operating Expense	<u>\$ 5,859,268.00</u>	<u>\$ 106,494.00</u>	<u>\$ 5,965,762.00</u>
Operating Income	<u>\$ 1,235,754.00</u>	<u>\$ 139,319.00</u>	<u>\$ 1,375,073.00</u>
Average Rate Base	<u>\$ 15,537,556.00</u>	<u>0</u>	<u>\$ 15,537,556.00</u>
Return on Rate Base	<u>7.95%</u>		<u>8.85%</u>

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20966 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

DAVID P. STEPHENSON
c/o AMERICAN WATER WORKS SERVICE COMPANY INC.
303 H Street, Suite 250
Chula Vista, CA 91910

ALAN M. OSHIMA, ESQ.
KENT D. MORIHARA, ESQ.
OSHIMA, CHUN, FONG & CHUNG LLP
841 Bishop Street, Suite 400
Honolulu, HI 96813



Karen Higashi

DATED: May 6, 2004